



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	HB0487	Title:	Classify as business inventories certain farm implements and construction equip.
Primary Sponsor:	McNutt, Walter	Status:	As Amended in House Committee-Revised

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$14,650	\$0	\$0	\$0
Revenue:				
General Fund	(\$58,623)	(\$61,537)	(\$64,060)	(\$66,686)
State Special Revenue	(\$3,703)	(\$3,887)	(\$4,046)	(\$4,212)
Net Impact-General Fund Balance:	<u>(\$73,273)</u>	<u>(\$61,537)</u>	<u>(\$64,060)</u>	<u>(\$66,686)</u>

Description of fiscal impact: This bill exempts farm implements of farm implement dealers and construction equipment of construction equipment dealers that are rented under purchase incentive rental programs from property taxation by defining these implements and equipment as exempt business inventory. State general fund revenues will be reduced by about \$135,000 in the 2011 biennium and \$130,000 in the 2013 biennium.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. The bill, amending 15-6-138, MCA (class 8 property), provides that implements and equipment that are rented under purchase incentive rental programs are not class 8 property.
2. Section 2 of this bill, amending 15-6-202, MCA (freeport merchandise and business inventories), provides that implements and equipment that are rented under purchase incentive rental programs are business inventories that are exempt from property taxation. The definition excludes equipment rented to a person for more than 9 months, equipment rented more than once to the same person, and equipment not owned by a dealer. This section of the bill requires that each dealer must report all equipment under a purchase incentive agreement program each calendar quarter to the Department of Revenue (DOR).

3. Section 3 of this bill amends 15-24-301, MCA (personal property brought into the state). This section of the bill provides that farm implements of farm implement dealers and construction equipment of construction equipment dealers that are rented under purchase incentive rental programs that are brought into the state are not subject to property taxation while they are under purchase incentive rental programs.
4. For purposes of this fiscal note it is assumed that the passage and approval of this act will occur prior to the start of the construction season and the start of the farming season for CY 2009.
5. The DOR screened the TY 2008 property tax database for farm machinery, heavy equipment and special mobile equipment, and class 8 rental equipment. DOR further screened the database, based on owner name, to remove property that was not owned by farm implement dealers and construction equipment dealers. The total market value of the farm machinery and heavy and special mobile equipment owned by farm implement dealers and construction equipment dealers in TY 2008 was \$ \$39,191,200. The value of implements and equipment held for sale as business inventories is not included in this value, since this property is exempt from property taxation. The department assumes that approximately half of the property will remain as rental property and half would be part of agricultural and construction dealers sales inventory under the registered purchase incentive agreement program..
6. The statewide average total mill levy for class 8 property in TY 2008 was 515.93 mills. The statewide mill levy for local taxes for class 8 property in TY 2008 was 414.93 mills (515.93 – 95 mills (state general fund) – 6 mills (university state special revenue fund.)). In TY 2008, local government state wide average class 8 mills were 187.29 mills of and the local school mills were 227.64 mills. This TY 2008 serves as the basis for estimating the fiscal impacts in FY 2010 through FY 2013.

**Basis for Measuring Fiscal Impact of Replacing Property Tax with an Excise Tax
on Farm Machinery and Construction Equipment Owned by Dealers
and Under Purchase Incentive Rental Agreements**

	Current Law	Proposed Law	Difference
Market Value	\$39,191,200	\$19,595,600	(\$19,595,600)
Property Tax			
Taxable Value (3%)	\$1,175,736	\$587,868	(\$587,868)
Statewide Average Mills Class 8	515.93	515.93	
Statewide Average Local Mills Class 8	414.93	414.93	
Tax Estimates			
General Fund Taxes (95 Mills)	\$111,695	\$55,847	(\$55,847)
University SSR Fund Taxes (6 Mills)	\$7,054	\$3,527	(\$3,527)
State Taxes	\$118,749	\$59,375	(\$59,375)
Local government Taxes (227.64 mills)	\$267,645	\$133,822	(\$133,822)
Local school Taxes (187.29 mills)	\$220,204	\$110,102	(\$110,102)
Local Taxes	\$487,848	\$243,924	(\$243,924)
Total Estimated Taxes	\$606,597	\$303,299	(\$303,299)

7. The assumed growth rates for class 8 property in HJR 2 are 4.97% for FY 2010 and FY 2011. The Office of Budget and Program Planning forecasts growth rates of 4.10% for FY 2012 and FY 2013. These growth rates are used in estimating the fiscal impacts of this bill for FY 2010 through FY 2013. The

following table shows the calculation of the impacts of this bill on revenues for state and local governments for FY 2010 through FY 2013.

Estimate of Fiscal Impact of HB 487 as amended -FY 2010 Through FY 2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Assumed Growth Rate	(base)	4.97%	4.97%	4.10%	4.10%
Reduction in Property Tax Revenue					
General Fund Taxes (95 Mills)	(\$55,847)	(\$58,623)	(\$61,537)	(\$64,060)	(\$66,686)
University SSR Fund Taxes (6 Mills)	(\$3,527)	(\$3,703)	(\$3,887)	(\$4,046)	(\$4,212)
Total State Revenue	(\$59,375)	(\$62,326)	(\$65,423)	(\$68,106)	(\$70,898)
Local Government Taxes (227.64 mills)	(\$133,822)	(\$140,473)	(\$147,455)	(\$153,500)	(\$159,794)
Local School Taxes (187.29 mills)	(\$110,102)	(\$115,574)	(\$121,318)	(\$126,292)	(\$131,470)
Local Taxes	(\$243,924)	(\$256,047)	(\$268,773)	(\$279,792)	(\$291,264)

8. This bill has no fiscal impact on administrative costs for the department.

Office of Public Instruction

9. The decrease in property tax values due to exemption of farm equipment property does not have a significant impact on Guaranteed Tax Base Aid (GTB) in K-12 schools. The change in GTB would redistribute between schools districts and would cost the state general fund about \$12,000 in the year of implementation of property tax valuation changes.
10. County school levies for district funds other than general fund would have decreased revenues due to decrease taxable valuation in this bill. The total decrease in revenues would be about \$17,725.
11. Countywide retirement GTB would cost the state general fund about \$2,650 based on a historical average of 28% of the costs paid by the state and FY 2009 county levies equal to \$65.1 million (0.0154% decrease in property tax value times \$65.1 million local levies times 28% paid by the state).

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
<u>Revenues:</u>				
General Fund (01)	(\$58,623)	(\$61,537)	(\$64,060)	(\$66,686)
State Special Revenue (02)	<u>(\$3,703)</u>	<u>(\$3,887)</u>	<u>(\$4,046)</u>	<u>(\$4,212)</u>
TOTAL Revenues	<u>(\$62,326)</u>	<u>(\$65,424)</u>	<u>(\$68,106)</u>	<u>(\$70,898)</u>
Office of Public Instruction				
<u>Expenditures:</u>				
Local Assistance (GTB)	\$12,000	\$0	\$0	\$0
Local Assistance (Co. Retire)	<u>\$2,650</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Expenditures	<u>\$14,650</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$14,650	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$73,273)	(\$61,537)	(\$64,060)	(\$66,686)
State Special Revenue (02)	<u>(\$3,703)</u>	<u>(\$3,887)</u>	<u>(\$4,046)</u>	<u>(\$4,212)</u>

Effect on County or Other Local Revenues or Expenditures:

1. County and other local government revenues will be reduced by about \$250,000 in FY 2010, growing by approximately \$12,500 each year there after. To the extent that local jurisdictions can float their mills, local governments and schools would be able to partially offset these losses.

Technical Notes:

1. There may be merit to adding the phrase, “or that is no longer in a purchase rental incentive program” after the phrase “or otherwise disposed of in the state” on page 9 line 17. That might help address those instances where the equipment is no longer on the program, but is still being used by the producer.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date